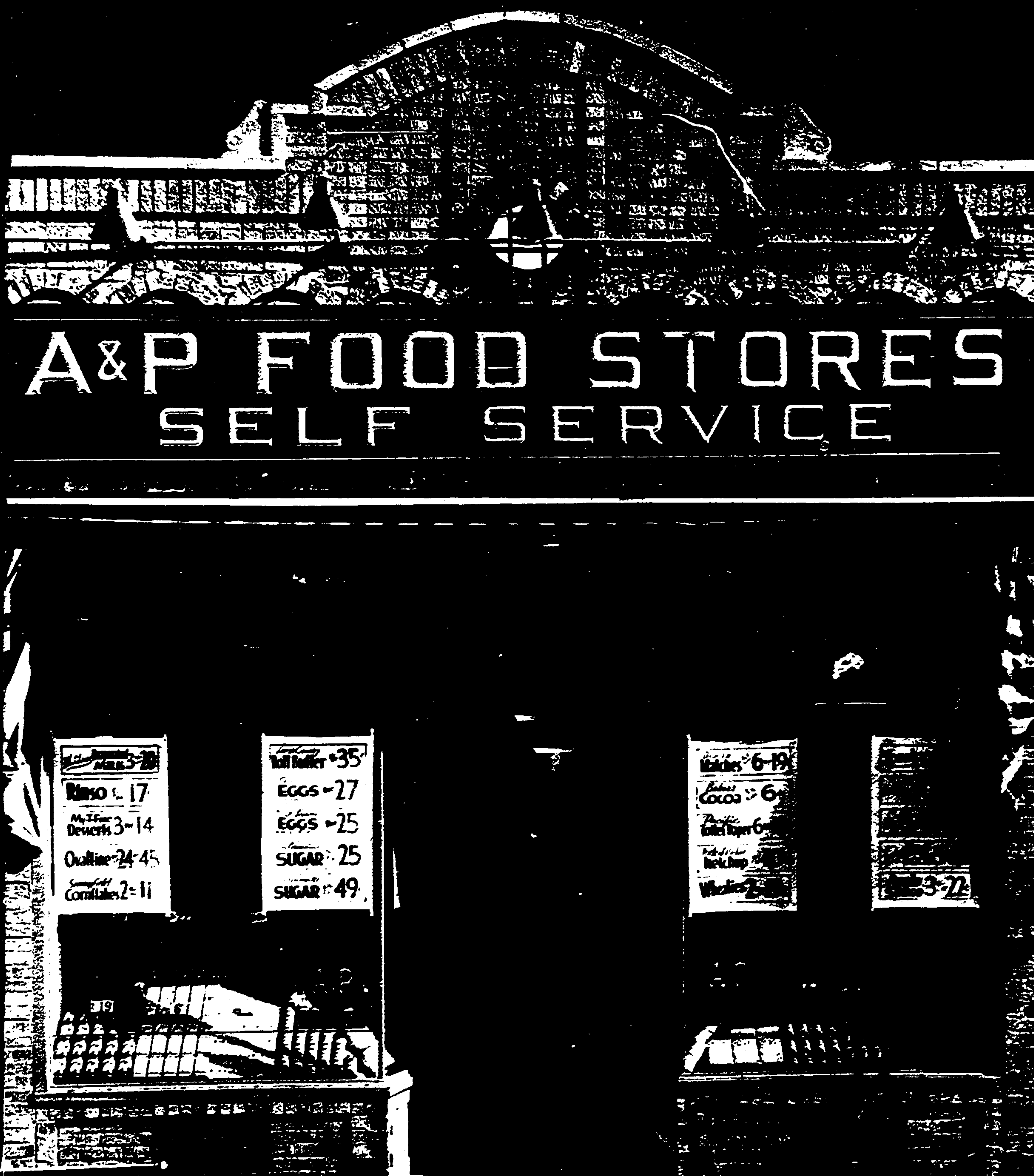
The Great Atlantic & Pacific Tea Company, Inc. A&P Annual Report 1983



125 Years of Service to America

The Future

1984–A&P's Prototype 'Futurestore'

Comparative Highlights

(Dollars in thousands except per share figures)

For the fiscal year	**1983**	1982	1981
Sales	**$5,222,013**	$4,607,817	$6,226,755
Net income (loss)	**47,551**	31,211	(101,633)
Net income (loss) per share	**1.27**	.83	(2.72)
Expenditures for property	**72,564**	33,128	68,406
Working capital	**166,381**	185,069	175,762
Current ratio	**1.34**	1.45	1.41
Stockholders' equity	**375,789**	329,372	302,153
Book value per share	**10.03**	8.81	8.08
Number of stores at year end	**1,022**	1,016	1,055

Covers

Commemorating the old would be a hollow exercise without a celebration of the new. As we at A&P look back with pride over our 125-year history, we dedicate ourselves to the fulfillment of the promise our future once again holds. The fold-out cover treatment reflects this dual purpose, as our Annual Report for 1983 addresses A&P's past, present and future.

Contents

James Wood

To Our Stockholders:

As we move further into fiscal 1984, and the celebration of A&P's 125th Anniversary as the first American retail food chain, we can look back on a year in which our Company took some major steps in the drive to establish a platform for long-term growth.

In fiscal 1983, we again achieved four profitable quarters, posting earnings for the year of $47,551,000, or $1.27 per share on sales of $5,222,013,000, reflecting increases of 52% in earnings and 13% in sales over the totals for fiscal 1982.

Late in 1983, the Third Circuit Court of Appeals in Philadelphia upheld the previous decision of the Federal District Court in Newark, which had approved the settlement of a class action suit relating to the termination of the A&P employee pension plan. Under the terms of the settlement, the A&P pension plan participants will receive $50 million for improved benefits, and the surplus of approximately $275 million will be returned to the company as soon as all necessary regulatory approvals for termination are received. Upon termination, the Company will institute a new retirement/savings program with flexible, defined contribution provisions, to provide a more favorable retirement program for employees.

In last year's Annual Report, we described A&P as a "threshold company," one which could expect above-average rates of growth. In business terms, "threshold company" usually refers to a small concern that is destined to become a large, successful company due to sustainable advantages it holds over its competition.

We applied this description to A&P because our new cost effectiveness, and resulting profitability, were brought about by permanent structural changes, rather than short-term "quick-fix" measures, which provided A&P with operational advantages that will last.

Those changes involved not only the elimination of loss-producing elements of the Company, such as unprofitable manufacturing operations, but also the discontinuation of other phases of our business which we felt did not fit into the scope of our long-term objectives, and as such were viewed as potentially negative factors.

Better control of our labor costs is a major aspect of our improved operating efficiency. In our many union contracts, all significant disadvantages relative to our competition have been removed. In our Super Fresh and Kohl's subsidiaries, we have benefited from unique contract agreements which emphasize labor/management cooperation and offer incentives for improved productivity.

Other major cost areas, such as distribution, administrative overheads, energy expenses and the like received similar attention, and have been brought further into line with the industry's leaders. Our information systems have been upgraded to state-of-the art levels, and will enable management to maintain a secure control of the business as it grows.

A major step in 1983, and one which underlines our confidence in the ability of our organization to manage significant growth, was the acquisition of Wisconsin-based Kohl's Food Stores. As well as being a sound business opportunity, the acquisition of Kohl's enabled us to expand our utilization of the Super Fresh-type labor contract. The benefits of that agreement, and the improvements generated by the new management team in place at Kohl's, are already producing positive results.

The acquisition of six large supermarkets in Baton Rouge from The Kroger Co. was another important step forward. That addition, and the two new stores to be opened by the Southern Group in fiscal 1984, will return A&P to a leadership position in that market.

With our turnaround virtually completed, we entered fiscal 1983 with our sights set on renewal and growth, and in that spirit we completed the first leg of our *Three Year Capital Plan, a comprehensive program of store remodeling*, based on careful evaluation of the potential of each store throughout our groups and subsidiaries. Many of the stores remodeled received special service departments, such as deli-bakery, gourmet meats, service seafood, and pasta and cheese islands. As the program unfolds over the next two years, we will continue to fine-tune our modular approach to the development of prototype departments, as well as our ability to operate different types of stores to satisfy local needs.

Of particular note will be the introduction in 1984 of our brand-new prototype concept for the large, full-service A&P supermarket, in Allendale, New Jersey. We feel it is an approach that will bring our store presentation to a new standard for the 1980's.

We will continue to strive, either through internal marketing improvements or acquisitions, to increase sales. As we reach outward for those improvements, we intend to keep pace within our organization by maintaining high levels in our support operations, e.g. management information systems and distribution.

Crucial to our effort to promote and manage growth is the buying-merchandising function. We've made real progress in that area, which has such great impact on our bottom-line performance. As we move into the second full year free of the constraints once imposed by the manufacturing operations closed in 1982, we will further refine our strategies, improve our merchandising mix, and take greater advantage of vendor programs, discounts and allowances, with particular emphasis on direct product profit management.

During 1983, we strengthened our overall management structure to provide a solid platform for growth. In addition, our improved financial stability permitted the removal of the prior years' auditor's qualification on our financial statements.

A&P's early rise to greatness was the product of its devotion to the needs of its customers, the ability to perceive shifts in those needs and respond accordingly, and a philosophy that regarded change as an opportunity for improvement.

These are marks of true leadership in business, and they are principles we intend to emulate as we continue to grow through 1984 and into the future.

James Wood

James Wood

Chairman of the Board, President
and Chief Executive Officer

April 17, 1984

The History

The first A&P store, then operated under the name of The Great American Tea Company, was opened in 1859 primarily as a retail outlet for tea imported from the Orient via clipper ship by the company's founder, George Huntington Hartford, and his partner George Gilman. As the business grew, the succeeding stores increased merchandise offerings to include coffee, spices, extracts and a number of canned grocery items.

George L. Hartford John A. Hartford

Our company was born in 1859, when George Huntington Hartford began selling tea imported from the Orient in a small store in New York's lower Manhattan. In 1869, the Company was incorporated as The Great Atlantic & Pacific Tea Co., in celebration of the completion that year of the nation's first transcontinental railroad.

By 1900, John and George Hartford, sons of the founder, were actively involved in the management of the then 250-store chain; George handling the financial side, and John the operator and merchandiser.

Over a period of 30 years, John Hartford's innovative merchandising genius revolutionized the industry with the introduction of low-priced "economy stores" from 1912–1925; larger, combination stores, featuring dairy, produce and meats in addition to low-priced groceries, in the late 1920's and 30's; and full-scale supermarkets from 1936 through 1945.

Yet this dynamic success brought government regulations and taxes aimed at chopping the giant down to size. Continued regulatory pressure through the 1940's and into the 1950's eventually saddled A&P with buying restrictions that eroded its ability to remain a price leader. The deaths of both Hartfords without a clear line of succession in the 1950's further aggravated the situation. Opportunities such as suburban development of large stores and the move to national brands were exploited by competitors, but not by A&P. The Company's decline accelerated in the 1970's, and revitalization efforts which closed more than 1,600 stores and a number of manufacturing divisions failed to achieve hoped-for results.

The History

In the 1930's, John Hartford, the operating and merchandising force behind A&P's dramatic success, innovated the "combination store," adding meat, produce and dairy products to the low-priced groceries. The self-service concept was also introduced in those years, as the precursor of the full-fledged supermarkets then on the horizon.

James Wood. Erivan Haub

In 1979, The Tengelmann Group of West Germany, a retailing firm headed by Erivan Haub, acquired a major interest in A&P. In 1980, James Wood, a native of England, joined A&P as Chairman and Chief Executive Officer. He had previously headed The Grand Union Co., and before that, a number of food retailing concerns in Great Britain. With A&P in difficult financial straits, the new management team performed a final restructuring, further reducing the chain to just over 1,000 stores, closing all unprofitable manufacturing plants, and installing improved systems of control over the business. Additionally, A&P's excessive labor costs were reduced through contract negotiations, and overheads were pared by a stringent cost control program. While these changes were taking place, management was reshaping its operating philosophy to reflect a single-minded emphasis on cost-effective retailing.

In fiscal 1982, a smaller but more efficient A&P posted four profitable quarters, its finest performance in over a decade. The upswing continued in 1983, with an earnings increase of 52% over the prior year. The Company's turnaround campaign succeeded because it was geared not only to achieve immediate gains but to effect improvements that will be maintained over the years to come.

With its recovery virtually completed, A&P is again poised for an aggressive growth campaign, through the 1980's and beyond.


BOKAR

The Stores

This coming fall the new prototype for the A&P "Futurestore" will be unveiled in Allendale, New Jersey. With its unique exterior treatment and interior decor and color scheme, the style is unlike any A&P store ever seen. Service departments are emphasized, and include meat and fish departments, bakery and delicatessen, gourmet cheese, bulk foods, nutrition center and floral departments. While totally modern in approach, the store design utilizes elements that express the longstanding association of A&P with food products.

We began in 1983 a new era of innovative and aggressive marketing throughout our groups and subsidiaries, which are organized as follows:

U.S. A&P Retail Operations include 753 A&P supermarkets in 9 geographic groups and divisions, covering 26 states.

Super Fresh Food Markets is a subsidiary which operates 57 stores, primarily former A&P supermarkets, in the Philadelphia area, Delaware and Southern New Jersey. The stores are conventional in nature, and emphasize customer service, outstanding perishables and merchandise tailored to the needs of the individual neighborhood served.

The Family Mart is our approach to the combination food, drug and general merchandise store format. Our Family Center subsidiary operates twenty-two 55,000-sq-ft. stores with primary concentration in Florida.

Super Plus Warehouse Foods is our warehouse store subsidiary, based in Chicago, operating six stores in that market and two others being tested elsewhere emphasizing low prices, extensive meat and produce departments, and specialty foods geared to neighborhood requirements.

Kohl's Food Stores, operator of 63 supermarkets and 12 other retail outlets in Wisconsin, was acquired by A&P in October of 1983. The new Kohl's II program is enhancing the chain's quality image, while implementing a new low price structure.

Our Canadian Company operates 107 stores, many of which have been remodeled to include service departments that are an integral part of our development program. A&P Canada is headquartered in Toronto, Ontario.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The Customers

The basis of our diversified approach to retailing, with its utilization of varied store formats, is the recognition that we can no longer be all things to all people in a given market area. Each store location must be assessed with attention to three dimensions of customer appeal, price, product assortment and service, and merchandised accordingly. Responsiveness to the specific needs of customers localized to the neighborhood level is the key to success in today's segmented retailing environment.

Our marketing strategies in 1984 are geared to address the reality that the "average consumer" no longer exists. As recently as the 1960's, retailers could pinpoint a mass market in which the majority of the buying public fit into a middle band of age, income, education and lifestyle parameters, and develop a singular marketing approach along those consistent lines.

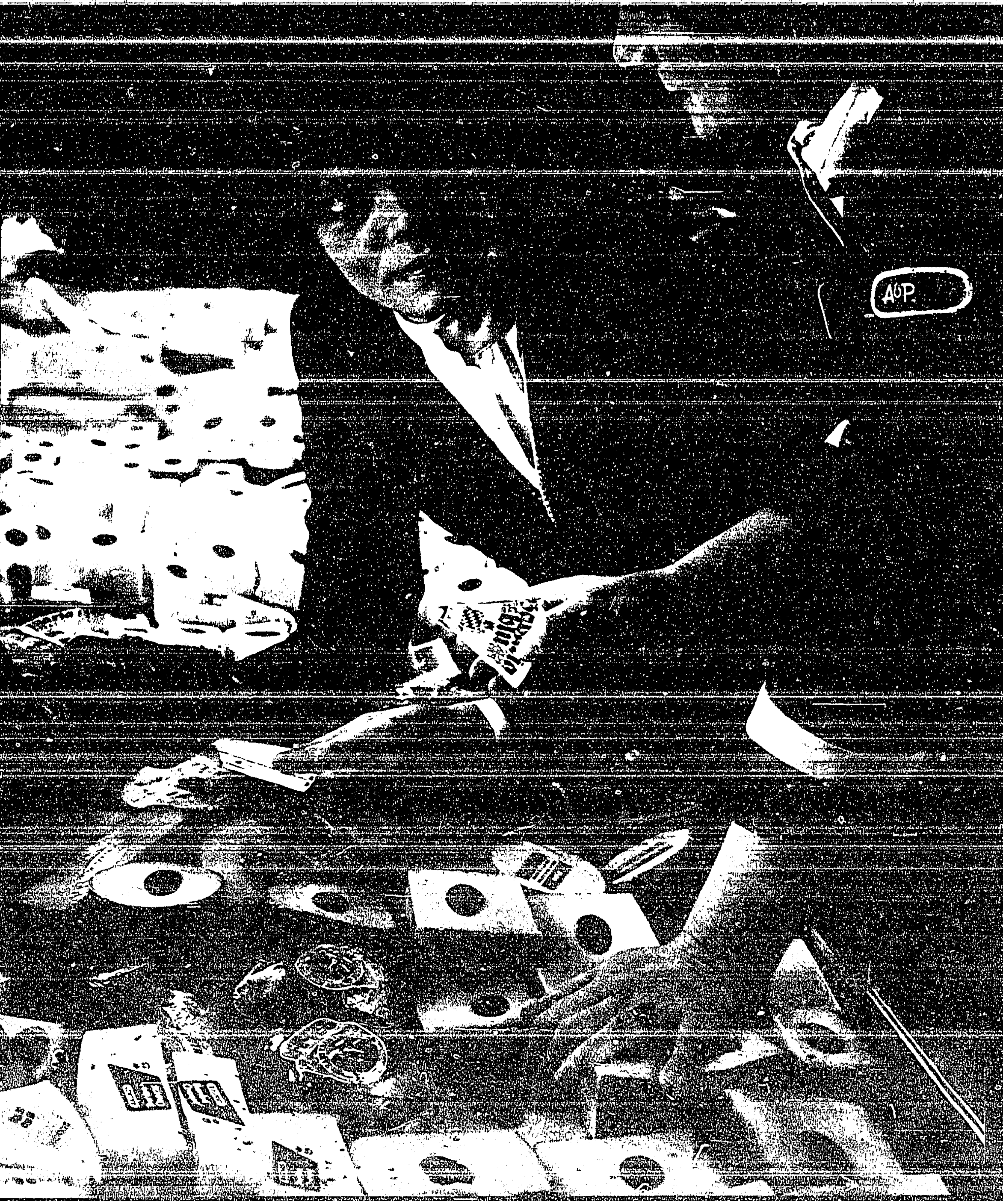
During that bygone age, supermarket operators could survive, and even prosper by merely opening the doors of nearly identical conventional supermarkets to an almost guaranteed flow of customers.

The emergence over the past two decades of women in the labor force, smaller family units, the rise of both single-person and single-parent households and the like has changed consumer demographics dramatically. Lifestyle and cultural changes, wrought by the influence of the mass media and the heavy influx of new generation Americans from other lands, have also played a major role in this evolution.

As a result, today's marketplace is a diverse and segmented kaleidoscope of buying patterns and preferences, one we as retailers must identify, target and satisfy.

That challenge, and the opportunity therein, is today guiding A&P in the development of its store network and merchandising plans. The use of alternative formats, such as large combination "superstores" and low-price oriented warehouse stores reflects this. And the fact that our more conventional supermarkets vary in size and merchandise variety is further evidence.

As our Company moves ahead in this new era, it is guided by the example of our predecessors, whose ability to understand and satisfy the needs of their customers put A&P at the forefront of food retailing in America.



The People

Communication and cooperation are key elements of teamwork in the fast-paced atmosphere that characterizes today's supermarket operation. We are working to maximize our team effort by instilling in our employees a sense of pride and importance. This means providing them with the proper training and motivation, considering their problems and being receptive to their suggestions for improvement of our business.

Beyond the establishment of the right store tailored to each location, the supermarket business is a matter of people serving other people. High on any list of customer expectations is a supermarket atmosphere of friendliness, courtesy and competence, and A&P continues to make every effort to foster that kind of environment throughout its store network. It is essential that we make store employees aware of their own importance in keeping our present customers and projecting the image we need to attract new ones.

We believe we can instill this feeling of pride and importance by treating all employees fairly, by providing the training they require, and by listening to their problems and suggestions for improvement of our day-to-day business.

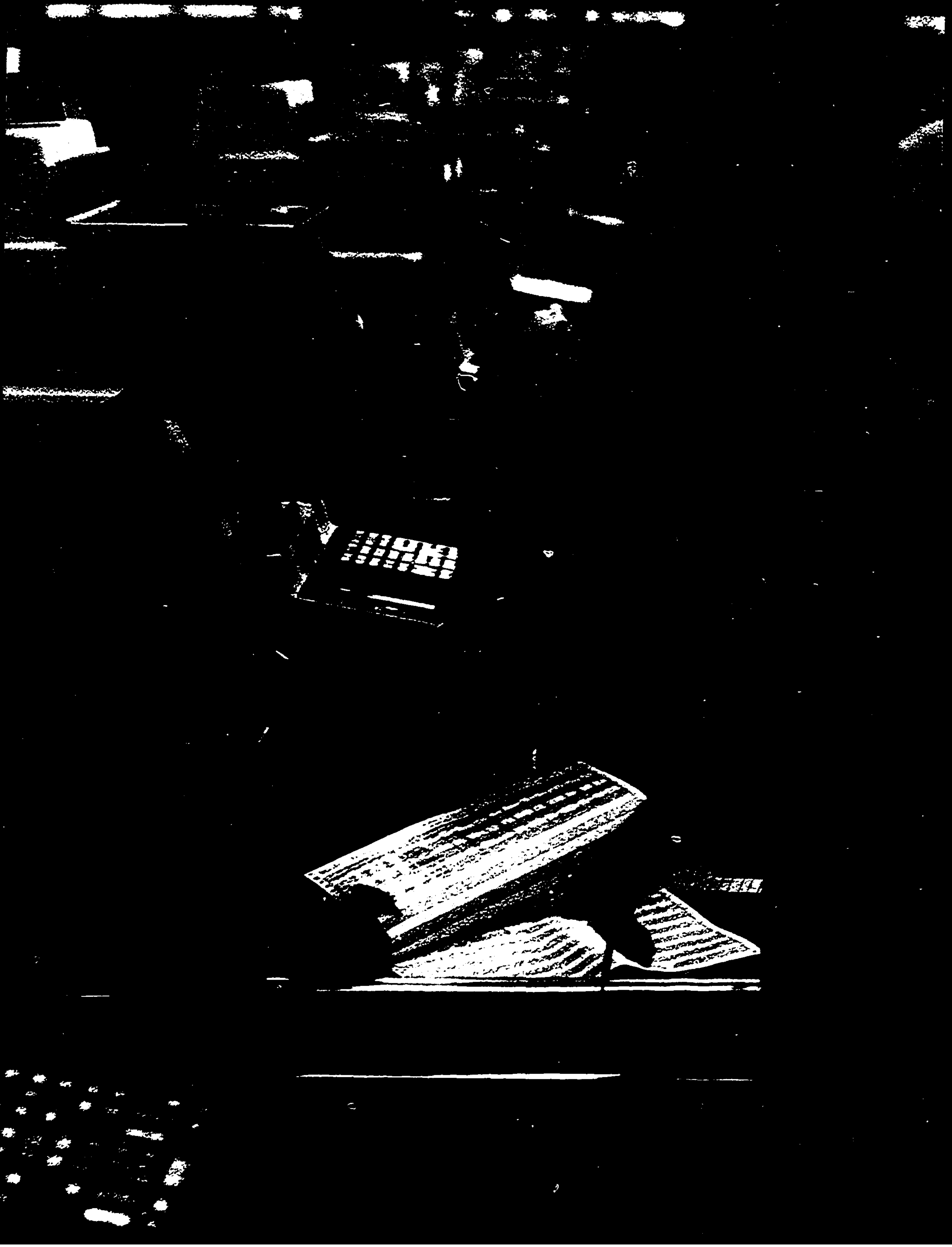
This spirit of cooperation runs especially high in the stores operated by our Super Fresh Food Markets subsidiary. And it is largely the result of a labor contract that is unique to the industry, and which enabled A&P to return to the Philadelphia area as a new entity in 1982.

In exchange for lower initial pay rates, Super Fresh union employees receive an economic incentive to boost productivity. If a store's total labor cost is held to 10% of sales or less, the workers earn 1% of sales as a bonus.

In addition to the financial incentive, the Super Fresh system utilizes a Quality of Work Life approach which enables employees to participate with management in decisions regarding store operations and merchandising.

This framework has fostered an enthusiasm that has been communicated to Super Fresh customers, and they have responded very favorably.

A similar contract was ratified overwhelmingly by the employees of Kohl's in Wisconsin at the time of its acquisition by A&P, and it is now in effect as our Company progresses through its first full year as operator of that chain.



The Products

A&P's improved merchandise assortment is an integral part of its overall marketing effort. The process of adjusting the variety of products available in the stores is an ongoing one, based on our awareness of the desires of our customers. Our buying, merchandising and distribution efforts are coordinated to provide the right blend of popular national brand items, as well as our own A&P and P&Q label products, to give our customers freedom of choice without sacrificing quality.

One of the problems which beset A&P during the difficult period of the 1960's and 70's was that it failed to respond to the growing trend toward national brand merchandise, which gained a tremendous franchise among food shoppers over those years.

This was due in part to the effort at that time to maintain the Company's manufacturing operations. The effect of this strategy was an imbalance of merchandise in the stores placing undue emphasis on house brands, to the exclusion of those labels which were growing in consumer esteem.

The closure of the bulk of A&P's manufacturing operations in 1982 had a twofold purpose: it eliminated a substantial loss-producing element, and it paved the way for the restructuring of A&P with a renewed and single-minded emphasis on retailing.

This is reflected today in our improved store merchandise mix, with the proper balance of popular national brands, and private-label items featuring the A&P and P&Q names. With our merchandising efforts dedicated to providing those items which have exhibited the greatest appeal to shoppers, our private-label assortment today serves to complement our national and regional brand emphasis by offering high-quality alternatives.

Our major remaining manufacturing operation produces our popular and profitable Eight O'Clock and Bokar bean coffees. Through the efforts of our Compass Foods marketing subsidiary, A&P now sells more of its coffee to other retailers outside our own marketing areas than through A&P stores, and Eight O'Clock is today one of the leading brands in the United States.

As a major retailer, we are by extension purchasing agents for our customers. As such, we are responsible to buy and stock those products which meet their needs, represent the finest quality and offer the best value. With past impediments alleviated, we stand ready to meet that responsibility.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Summary

As the material presented in this report illustrates, we are proud to observe The Great Atlantic & Pacific Tea Company's 125th year of serving America. We would be remiss to overlook such an important milestone in the history of a company whose name symbolizes our industry, and which has been so much a part of American life for the past century and a quarter.

What makes this time so gratifying for our company, however, is that we are today renewed, rejuvenated, and in a position to move forward with all signs pointing to growth and success over the long-term. In this light, our intent is not to dwell upon the past, but rather to express pride in our great tradition, and enthusiasm for the promise our future now holds.

Although the logistics of operating a large retail food chain are more complex than ever before, the basic requirement for success in our industry remains constant; satisfaction of the customer by offering the right assortment of quality merchandise at the right price.

The great lesson of A&P's past is that when a talented management team channeled its skills and efforts to that singular purpose, the company flourished. When those efforts were curtailed, the results reflected it.

With our improved financial condition, strong management team, and on-going store development and merchandising programs, we are once again ready to cross the threshold and resume a position of leadership.

Few companies have been through periods of greatness, decline and renewal as dramatically as has The Great A&P. It is management's objective to make this period of growth equally dramatic.

Financial Data

Statement of Consolidated Operations
(Dollars in thousands, except per share figures)

	Fiscal 1983	Fiscal 1982	Fiscal 1981
Sales	**$5,222,013**	$4,607,817	$6,226,755
Cost of merchandise sold	**4,041,033**	3,575,901	4,903,227
Gross margin	**1,180,980**	1,031,916	1,323,528
Store operating, general and administrative expense	**1,038,476**	914,404	1,251,584
Depreciation and amortization	**54,205**	49,870	67,411
Income from operations	**88,299**	67,642	4,533
Interest (expense) income:			
Interest expense	**(30,809)**	(30,132)	(35,596)
Interest income	**6,461**	7,551	6,430
Interest expense—net	**(24,348)**	(22,581)	(29,166)
Income (loss) before income taxes, revitalization program and extraordinary credit	**63,951**	45,061	(24,633)
Anticipated cost of revitalization program	**—**	—	(200,000)
Income (loss) before income taxes and extraordinary credits	**63,951**	45,061	(224,633)
Provision for income taxes	**(32,550)**	(23,700)	(7,000)
Income (loss) before extraordinary credits	**31,401**	21,361	(231,633)
Extraordinary credit—tax loss carryforward utilization	**16,150**	9,850	—
Extraordinary credit—pension	**—**	—	130,000
Net income (loss)	**$ 47,551**	$ 31,211	$ (101,633)
Per common share:			
Income (loss) before extraordinary credits	**$ .84**	$ .57	$ (6.19)
Extraordinary credit—tax loss carryforward utilization	**.43**	.26	—
Extraordinary credit—pension	**—**	—	3.47
Net income (loss)	**$ 1.27**	$ .83	$ (2.72)

Statement of Consolidated Stockholders' Equity
(Dollars in thousands)

	Fiscal 1983	Fiscal 1982	Fiscal 1981
Common stock:			
Balance forward	**$ 37,405**	$ 37,393	$ 37,393
Exercise of options	**104**	12	—
	$ 37,509	$ 37,405	$ 37,393
Capital surplus:			
Balance forward	**$ 421,109**	$ 421,052	$ 421,052
Exercise of options	**606**	57	—
	$ 421,715	$ 421,109	$ 421,052
Cumulative translation adjustment:			
Balance beginning of year	**$ (4,061)**	$ (4,218)	$ —
Exchange adjustment	**(1,844)**	157	—
	$ (5,905)	$ (4,061)	$ —
Retained earnings (deficit):			
Balance forward	**$ (125,081)**	$ (156,292)	$ (54,659)
Net income (loss)	**47,551**	31,211	(101,633)
	$ (77,530)	$ (125,081)	$ (156,292)

See Notes to Consolidated Financial Statements on pages 21 through 32

Consolidated Balance Sheet

(Dollars in thousands)

	February 25, 1984	February 26, 1983
Assets		
Current assets:		
Cash and short-term investments	$ 65,195	$ 98,449
Accounts receivable	49,929	58,094
Inventories	494,034	414,650
Properties held for sale	38,153	17,809
Prepaid expenses	6,955	3,799
Total current assets	654,266	592,801
Property:		
Land	10,673	10,443
Buildings	41,087	45,026
Equipment	282,616	244,850
Store fixtures and leasehold improvements	181,314	144,956
Total—at cost	515,690	445,275
Less accumulated depreciation and amortization	(221,108)	(199,940)
	294,582	245,335
Real property leased under capital leases	110,955	104,083
Property—net	405,537	349,418
Other assets (includes $130 million prepaid pension)	140,125	145,176
	$1,199,928	$1,087,395
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 19,007	$ 11,859
Current portion of obligations under capital leases	12,562	10,679
Accounts payable	291,180	232,410
Accrued salaries, wages and benefits	70,434	61,381
Accrued taxes	29,518	30,872
Current portion of closing reserves and other accruals	65,184	60,531
Total current liabilities	487,885	407,732
Long-term debt	106,152	116,557
Obligations under capital leases	153,031	143,160
Deferred income taxes	12,214	8,811
Closing reserves and other liabilities	64,857	81,763
Stockholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—80,000,000 shares; issued and outstanding 37,508,556 and 37,404,784 shares respectively	37,509	37,405
Capital surplus	421,715	421,109
Cumulative translation adjustment	(5,905)	(4,061)
Retained earnings (deficit)	(77,530)	(125,081)
Total stockholders' equity	375,789	329,372
	$1,199,928	$1,087,395

See Notes to Consolidated Financial Statements on pages 21 through 32

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)

	Fiscal 1983	Fiscal 1982	Fiscal 1981
Source of funds:			
From operations:			
Income (loss) before extraordinary credit	**$ 31,401**	$ 21,361	$(231,633)
Expenses (income) not requiring (providing) working capital:			
Depreciation and amortization	**45,579**	41,642	56,599
Amortization of real property leased under capital leases	**8,626**	8,228	10,812
Charge in lieu of current U.S. income tax	**16,150**	9,850	—
Anticipated cost of revitalization program—net (non-current portion)	**—**	—	106,600
Deferred income taxes	**3,403**	4,394	489
Deferred investment tax credits	**—**	—	(143)
Working capital provided from operations before extraordinary credit	**105,159**	85,475	(57,276)
Extraordinary credit	**16,150**	9,850	130,000
Extraordinary credit not providing working capital	**(16,150)**	(9,850)	(130,000)
Total working capital provided from operations	**105,159**	85,475	(57,276)
Disposition of property	**2,243**	5,875	17,496
Transfer of property to current portion of closing reserves	**2,196**	15,900	49,001
Obligations under capital leases	**3,185**	(4,508)	(9,812)
Decrease in property leased under capital leases due to store closings and terminations	**3,497**	964	29,204
Decrease in property due to foreign currency translation	**756**	3,980	—
Proceeds from borrowings	**—**	—	14,144
Decrease in non-current notes receivable	**2,225**	(2,908)	(959)
Other	**8,328**	7,578	2,420
Total	**127,589**	112,356	44,218
Disposition of funds:			
Acquisition of Kohl's (excludes working capital acquired)	**21,019**	—	—
Expenditures for property	**72,564**	33,128	68,406
Property leased under capital leases	**10,007**	5,787	654
Decrease in obligations under capital leases due to store closings and terminations	**5,616**	6,307	38,830
Decrease in cumulative translation adjustment	**1,844**	4,061	—
Current maturities and repayment of long-term debt	**11,741**	11,859	15,760
Transfer of non-current reserves to current liabilities	**23,486**	41,907	4,598
Total	**146,277**	103,049	128,248
Increase (decrease) in working capital	**(18,688)**	9,307	(84,030)
Working capital—beginning of year	**185,069**	175,762	259,792
Working capital—end of year	**$166,381**	$185,069	$175,762
Increase (decrease) in components of working capital:			
Cash and short-term investments	**$ (33,254)**	$ 42,811	$ (52,050)
Accounts receivable	**(8,165)**	9,028	3,711
Inventories	**79,384**	(63,453)	(109,388)
Properties held for sale	**20,344**	(180)	(16,096)
Prepaid expenses	**3,156**	(3,532)	(100)
	61,465	(15,326)	(173,923)
Accounts payable	**58,770**	(36,077)	(62,896)
Current portion of long-term debt	**7,148**	10,042	80
Current portion of obligations under capital leases	**1,883**	(483)	(1,689)
Accrued expenses	**7,699**	(117)	(23,059)
Current portion of closing reserves and other accruals	**4,653**	2,002	(2,329)
	80,153	(24,633)	(89,893)
Increase (decrease) in working capital	**$ (18,688)**	$ 9,307	$ (84,030)

See Notes to Consolidated Financial Statements on pages 21 through 32

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Fiscal Year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1983 ended February 25, 1984, fiscal 1982 ended February 26, 1983 and fiscal 1981 ended February 27, 1982, each comprising 52 weeks.

Common Stock—As of February 25, 1984, the principal stockholder of the Company, Tengelmann Warenhandelsgesellschaft ("Tengelmann") owned 50.7% of the Company's common stock.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Foreign Operations—In fiscal 1982, the Company elected to adopt the principles of Financial Accounting Standards Board Statement No. 52, "Foreign Currency Translation." Assets and liabilities of foreign subsidiaries as of February 25, 1984 and February 26, 1983 have been translated at year-end rates. Fiscal 1983 and 1982 income and expense accounts have been translated at average rates prevailing during the year.

Inventories—Inventories are valued at the lower of cost or market, with cost being determined on the following bases: inventories in stores—average cost under the retail method; other inventories, primarily in warehouses and food processing facilities—cost on a first-in, first-out basis.

Properties—The Company leases a substantial portion of its facilities and a majority of store leases are considered to be operating leases.

Owned land and buildings generally consist of stores, food processing facilities and warehouses. Equipment, store fixtures, and leasehold improvements, generally, are owned, although the Company has equipment leasing programs for store equipment and trucks, most of which are accounted for as capital leases. Properties designated for sale and leaseback have been classified as current assets.

For financial reporting purposes, depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to twelve years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases.

Pre-opening Costs—Costs incurred in the opening of new stores are expensed in the quarter in which the store is opened.

Closed Facilities—The Company provides for the estimated loss on the disposition of leased or owned facilities in the period in which the decision to close the facility is made. For significant closing programs, provisions are established for estimated closing and other related costs. The sales for those stores included in such significant closing programs are excluded from the statement of consolidated operations from the effective dates of inclusion in the programs.

Income Taxes—The Company's policy is to provide deferred taxes in recognition of timing differences between income for financial reporting and income tax purposes. However, due to the Company's U.S. tax loss carry-forward position, no deferred U.S. taxes have been provided on the differences between financial and taxable income.

Retirement Plans—Annual costs of the Companies' pension plans consist of normal cost, amortization over 40 years of unfunded prior service cost as of January 1, 1976, amortization over 30 years of changes in the unfunded actuarial liability resulting from plan amendments and changes in actuarial assumptions and amortization over 15 years of annual actuarial gains or losses. Annual costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements.

Compensated Absences—The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $35.7 million and $30.9 million for 1983 and 1982, respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits."

Earnings Per Share—Net income (loss) per share is based on the weighted average number of common shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no material effect and, therefore, were excluded from the computation of net income (loss) per share.

Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh Food Markets, Family Mart, Super Plus, Kohl's and Compass Foods. Sales and revenues in the table below reflect sales to unaffiliated customers in the United States and foreign countries (principally Canada).

(Dollars in thousands)	**Fiscal 1983**	Fiscal 1982	Fiscal 1981
Sales			
Domestic	**$4,328,059**	$3,841,218	$5,558,384
Foreign	**893,954**	766,599	668,371
Total	**$5,222,013**	$4,607,817	$6,226,755
Income (loss) from operations			
Domestic	**$ 63,536**	$ 47,063	$ (11,057)
Foreign	**24,763**	20,579	15,590
Total	**$ 88,299**	$ 67,642	$ 4,533
Assets			
Domestic	**$1,008,604**	$ 938,813	$1,023,971
Foreign	**191,324**	148,582	117,708
Total	**$1,199,928**	$1,087,395	$1,141,679

Indebtedness

During fiscal 1983, the Company entered into a $100 million seven year Credit Agreement with various banks. The Agreement allows the Company to borrow amounts up to $100 million on a revolving basis, until September 1, 1986. At the end of that period, the Company has the right to convert any amount up to $100 million into a four-year term loan which amortizes equally in semi-annual installments. There were no borrowings under this Credit Agreement during fiscal 1983. The Company has an additional $47 million in formal lines of credit with banks. There were no borrowings made under these lines during fiscal 1983, 1982, or 1981.

Long-term debt (exclusive of current maturities) consists of:

(Dollars in thousands)	**February 25, 1984**	February 26, 1983
9½% Senior Notes, due in annual installments of $10,000 through October 1, 1992	**$ 80,000**	$ 90,000
9⅞% Mortgage Notes, due in monthly installments of $83 through September 29, 1997	**12,667**	13,667
Other notes, interest rates of ⅞% to 15¾% due 1985 to 2002	**13,485**	12,890
	$106,152	$116,557

The Company's loan agreements contain, among other things, certain restrictive provisions including restrictions on the payment of cash dividends, the maintenance of working capital and limitations on the incurrence of additional indebtedness and lease commitments. Under one agreement, the Company is prohibited from declaring or paying dividends (other than stock dividends) on its common stock. Under that agreement, as of February 25, 1984, the Company would have had to have additional Consolidated Net Earnings (as defined) in excess of $105 million in order to declare any dividends on its outstanding common stock, in which event, the payment would be limited to 75% of such excess.

Maturities of long-term debt during each of the next five fiscal years are 1984—$19,007,000; 1985—$11,856,000; 1986—$11,658,000; 1987—$11,679,000; 1988—$11,727,000.

The maturities of long-term debt in 1984 and the current portion of long-term debt in the accompanying balance sheet include $6.7 million of mortgage debt due after 1984 which relates to properties held for sale which are expected to be sold during the current fiscal year.

Closing Facilities

During 1981, the Board of Directors approved the development and implementation of a comprehensive revitalization program involving the sale or disposition of a significant number of unprofitable and marginal stores, certain food processing plants, and related support facilities. In the fourth quarter of fiscal 1981, the Company provided $200 million for the current and estimated future expenses related to this program. The provision included losses from operations from the decision date to date of closings, estimated loss on the disposal of equipment and leases, employee severance payments, and other related costs. The revitalization program has been substantially completed and the total of the costs incurred with the estimated remaining costs approximates the amount initially provided.

Included in accounts receivable are notes receivable for $1.6 million at February 25, 1984 and $12.7 million at February 26, 1983 at interest rates ranging from 5% to 17%, principally relating to the sale of closed facilities.

Activity related to reserves provided for closing of facilities including prior programs is shown below.

(Dollars in thousands)	**Fiscal 1983**	Fiscal 1982	Fiscal 1981
Balance forward	**$44,248**	$85,123	$15,453
Anticipated cost of revitalization program	**—**	—	200,000
Charges—Net	**(23,486)**	(40,875)	(130,330)
	$20,762	$44,248	$85,123

Included in the above table are fixed assets which have been transferred to current and non-current liabilities for balance sheet presentation in 1983 and 1982. "Closing reserves and other liabilities" include $16.2 million and $39.7 million at February 25, 1984 and February 26, 1983 respectively which represents the non-current portion of closing reserves.

Acquisition

On October 1, 1983 the Company acquired the net assets of Kohl's Food Stores ("Kohl's"), a Division of Brown and Williamson Tobacco Corporation, from BATUS Inc. for $31.2 million in cash. Kohl's is a Milwaukee based supermarket chain operating 75 stores. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Kohl's are included in the Statement of Consolidated Operations from the date of acquisition. The excess of the fair value of net assets acquired over the purchase price has been applied as a reduction of the value of property acquired. Pro forma information has been omitted as such information would not be materially affected by the results of Kohl's prior to the date of acquisition.

Litigation

In the 1974 Annual Report, the Company reported on an antitrust judgment entered in favor of a Mr. Bray and five other cattle producers or feeders in the amount of $35.8 million plus interest. The Company settled this action in 1975 (for payments ending in 1980 having a present value of about $7 million, which was charged to operations in fiscal 1975) and the judgment was vacated and the action dismissed.

During 1975, 1976, 1977 and 1981, seventeen similar antitrust actions alleging violations of sections of the Sherman Act, were filed in several states, and all of these were consolidated for pretrial purposes in the Dallas Federal Court. One of these actions was purportedly brought on behalf of a class consisting of all persons who are engaged in the business of raising fat cattle who have not otherwise filed claims and who sold more than 100 head of cattle per year. Each of these suits names the Company and other retail food chains as defendants and asks damages and other relief which may include an injunction.

On June 14, 1982, the District Judge hearing the federal court actions entered a judgment dismissing the substantial damage claims of the complaints on the ground that plaintiffs had not sold directly to the retail food chain defendants, following Illinois Brick Co. v. the State of Illinois, 431 US 720 (1977). The District Judge's decision was affirmed on appeal by the Fifth Circuit Court of Appeals on July 25, 1983. The U.S Supreme Court denied review of the Fifth Circuit Court's decision on February 21, 1984. Requests for an injunction and other relief remain pending in these actions.

The Company denies all allegations of wrongdoing in the above-mentioned actions. No provision for possible liability has been made in the accompanying financial statements.

On October 30, 1981, as a result of the Company's announced intention to terminate its existing retirement plan ("Plan") and substitute a new plan therefor, suit was brought in Newark, New Jersey Federal Court by a former executive, on behalf of himself and on behalf of a class of Plan participants, against the Company, its directors, its principal shareholder and others. The complaint alleged that the proposed recapture by the Company of approximately $200 million in surplus Plan assets was improper under applicable law and sought both to prevent distribution of the assets to the Company and to require distribution to the Plan participants. An agreement in principle to settle such suit was reached in April, 1982, pursuant to which Plan benefits to participants will be increased at a cost of $50 million. A judgment approving the settlement was entered by the Court on March 18, 1983 and the judgment was affirmed by the Third Circuit Court of Appeals on December 29, 1983.

In December, 1981, as the result of a charge filed on October 18, 1974, the Equal Employment Opportunity Commission ("Commission") filed suit in Philadelphia Federal Court alleging that the Company, several international unions and certain of their locals have violated the Civil Rights Act of 1964, as amended, by engaging in patterns and practices of employment discrimination. In such suit the Commission seeks to enjoin the defendants from the alleged discrimination in hiring, promotion and other employment practices and require remedial measures, detailed implemental procedures and payments to alleged victims of discrimination. On May 16, 1983, the district court granted summary judgment in the Company's favor. The decision is on appeal to the Third Circuit Court of Appeals.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business.

Although the ultimate outcome of the legal proceedings cannot be predicted, the Company's present opinion is that any resulting liability will not have a material effect upon the Company's financial position.

Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases, and certain of the store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks because of financial and tax considerations.

The Company accounts for leases in accordance with Statement No. 13 of the Financial Accounting Standards Board. Accordingly, the consolidated balance sheet includes:

(Dollars in thousands)	**February 25, 1984**	February 26, 1983
Real property leased under capital leases	**$186,976**	$170,756
Equipment leased under capital leases	**40,960**	36,742
	227,936	207,498
Accumulated amortization	**99,136**	85,890
	$128,800	$121,608

The value of equipment leased under capital leases is included with owned equipment in the accompanying balance sheet.

The assets and obligations for stores leased under capital leases which are closed prior to lease expiration are eliminated from the accounts as of the date of the decision to close and an accrual is provided for anticipated costs to be incurred upon the ultimate disposition of the facility.

Rent expense for operating leases consists of:

(Dollars in thousands)	**1983**	1982	1981
Minimum rentals	**$43,440**	$39,528	$64,651
Contingent rentals	**4,629**	2,694	4,046
	$48,069	$42,222	$68,697

The minimum annual rentals for leases in effect at February 25, 1984 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities provided for in the Company's revitalization program and other closing programs.

Minimum Annual Rentals

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1984	$ 7,709	$ 23,213	$ 45,674
1985	6,784	22,809	42,558
1986	4,346	22,275	38,348
1987	2,993	21,720	34,383
1988	2,722	21,444	31,326
1989 and thereafter	510	191,783	211,435
	25,064	303,244	$403,724
Less executory costs	–	(9,587)	
Net minimum rentals	25,064	293,657	
Less interest portion	(6,283)	(146,845)	
Present value of net minimum rentals	$18,781	$146,812	

Stock Options

The Company has a stock option plan, approved by the stockholders in June 1975, and since amended under which officers and key employees may be granted statutory incentive stock options (pursuant to section 422A of the Internal Revenue Code) and non-statutory options to purchase not more than 1,500,000 shares of common stock at not less than the fair market value at grant dates. At February 25, 1984, there were 394,650 shares available for future option grants and 398,400 were available at February 26, 1983. Of the stock options outstanding at February 25, 1984, 225,923 shares were exercisable at the date of grant and 762,055 at cumulative 25% increments after each of the first through fourth anniversaries of the grants. A summary of option transactions is shown in the table below.

	Incentive Options	Non-Qualified Options	Option Price Per Share	Total Option Price
Outstanding, February 27, 1982.	–	848,000	$ 4.94 to $12.44	$5,982,000
Fiscal 1982:				
Transfers	304,004	(304,004)	–	–
Granted	394,540	20,460	5.50 to 8.94	2,400,000
Cancelled or expired . . .	–	(163,000)	5.75 to 12.44	(1,530,000)
Exercised	–	(12,000)	4.94 to 5.88	(69,000)
Outstanding, February 26, 1983	698,544	389,456	4.94 to 12.06	6,783,000
Fiscal 1983				
Granted	76,803	23,197	11.44 to 12.88	1,223,000
Cancelled or expired . . .	(67,803)	(28,447)	5.50 to 12.06	(692,000)
Exercised	(79,272)	(24,500)	5.19 to 11.69	(710,000)
Outstanding, February 25, 1984	628,272	359,706	$ 4.94 to $12.88	$6,604,000
Shares becoming exercisable in:				
Fiscal 1982	56,169	17,706	$ 5.63 to $ 8.19	$ 436,000
Fiscal 1983	161,290	11,834	$ 5.50 to $ 8.94	$ 999,000
Shares exercisable:				
February 26, 1983	102,125	349,875		
February 25, 1984	187,018	307,709		

In September 1983, the Board of Directors amended the 1975 Stock Option Plan, subject to shareholders' approval, to provide for granting of stock appreciation rights ("SAR's"). SAR's may be granted with respect to some or all of the shares granted under a new non-statutory or statutory incentive stock option (pursuant to section 422A of the Internal Revenue Code) or an existing non-statutory stock option. A SAR allows the optionee, in lieu of exercising his option to receive at the discretion of the stock option committee, shares of common stock, cash, or a combination of shares and cash having a fair market value on the date of exercise equal to the excess of the fair market value on the date of exercise of one share of common stock over the option price per share under the related option. Recipients and terms of individual grants are determined by a committee selected by the Board of Directors. As of April 10, 1984 SAR's have been granted for 286,847 shares at $4.94-$12.57 per share (market value of stock options at grant date).

Income Taxes

The provision for income taxes consists of the following:

(Dollars in thousands)	**Fiscal 1983**	Fiscal 1982	Fiscal 1981
Current:			
Federal	**$16,150**	$ 9,850	$ –
Canadian	**11,895**	8,197	6,111
State and local	**1,102**	1,259	543
Amortization of investment tax credits	**—**	–	(143)
	29,147	19,306	6,511
Deferred—Canadian	**3,403**	4,394	489
	$32,550	$23,700	$7,000

The anticipated cost of the closing programs is deductible for income tax purposes only as costs actually are incurred. The realization of the entire potential tax benefit of such costs is not considered assured beyond a reasonable doubt because of the Company's existing tax loss carryforward.

The deferred Canadian provisions result from the excess of depreciation deductions of a Canadian subsidiary for tax purposes over amounts recorded for financial statement purposes, and a provision for tax on current undistributed earnings of Canadian subsidiaries. Approximately $7 million of deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries considered to be permanently invested. Approximately $49.5 million of retained earnings of the Company's Canadian subsidiaries can be remitted without an additional tax provision.

Investment tax credits, previously utilized for tax purposes, were deferred and amortized over the estimated useful lives of the related assets ending in fiscal 1981.

At February 25, 1984, the Company had a U.S. operating loss carryforward, for financial statement purposes, of approximately $260 million which arose principally from provisions for closing of facilities made in fiscal 1974, 1978, and 1981.

For tax purposes, the Company's operating loss carryforward as of February 25, 1984 is approximately $292 million which expires starting in fiscal 1990 through fiscal 1998. The principal difference between the carryforward for financial statement and tax purposes is due to timing differences, particularly costs relating to closed facilities and the 1981 extraordinary credit—pension. In addition, the Company has unused investment tax credits of approximately $40 million. These unused credits, which have not been recognized for financial statement purposes, will expire during fiscal years 1988 through 1998.

During fiscal 1981, the Company entered into an agreement, the substance of which was solely to sell the tax benefits—investment tax credits and accelerated depreciation—associated with $11.9 million of certain machinery and equipment placed in service after January 1, 1981, under the Safe Harbor Clause of the Economic Recovery Tax Act of 1981. An amount proportionate to the benefits derived from continuing operations has been recognized as income in the consolidated statement of operations in fiscal 1982 and 1981.

The difference between the Company's effective tax rate and the U.S. and Canadian statutory rate is attributable to the fact that no U.S. tax provision was required for fiscal 1981 due to the U.S. operating losses, a lower statutory rate for a Canadian non-resident subsidiary, the effective rates of state and local income taxes and unrealized foreign exchange translation gains and losses.

Retirement Plans

The Company provides retirement benefits for substantially all non-union and some union employees under the Company Retirement Plans. Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives. The cost of all retirement plans amounted to $18.2, $17.5, and $25.8 million in fiscal 1983, 1982 and 1981, respectively.

A comparison of accumulated plan benefits and plan net assets for the Company's plans is as follows:

(Dollars in thousands)	December 31, **1983**	1982
Actuarial present value of accumulated plan benefits:		
Vested	**$ 21,235**	$ 9,153
Non-Vested	**7,303**	5,035
	$ 28,538	$ 14,188
Net assets available for benefits	**$380,029**	$329,912

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9.5 and 10.0 percent in fiscal 1983 and 1982 respectively. The assumed rate of return used was that published by the Pension Benefit Guaranty Corporation, an agency of the U.S. Government, for the applicable valuation date.

During 1981, the Company announced, as part of a comprehensive revitalization program, that it intended to terminate the Company Employees' Retirement Plan and to establish a new, more flexible and attractive plan. The termination would enable the Company to utilize a surplus that has developed in the Plan as a result of overfunding. On October 30, 1981, a former executive of the Company filed a class action suit to prevent distribution to the Company of the surplus. On April 5, 1982, a preliminary settlement agreement allowing the Company to terminate the Plan was reached. The agreement was upheld in Federal Court and entered as a final judgment on March 18, 1983 and affirmed by the Third Circuit Court of Appeals on December 29, 1983. Based on no further appeal and the appropriate regulatory approvals, the Company anticipates the termination of the Plan to occur in fiscal 1984 at which time a new plan will be implemented.

An extraordinary credit of $130 million was recorded in fiscal 1981 which represents the present value of the future economic benefit attributable to the purchase of annuities for pension plan participants in anticipation of the termination of the Plan.

The Company's Canadian pension plans are not required to report to U.S. governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above. For those plans, the actuarially computed value of vested benefits as of December 31, 1983 and 1982 was exceeded by the total of those plans' assets and balance sheet accruals.

The Company could, under certain circumstances, be liable for substantial unfunded vested benefits or other costs of jointly administered union/management plans.

The Effects of Changing Prices (unaudited)

Basis of Preparation—The supplementary financial data presented in the tables below disclose estimated effects of inflation on certain historical financial data as required by Statement No. 33 of the Financial Accounting Standards Board (FASB No. 33), Financial Reporting and Changing Prices. The Company's primary financial statements are presented on an historical cost basis, that is, on a basis of the prices in effect when the transactions occurred. The data which follow attempt to adjust the historical amounts for the effects of inflation. The required disclosures are experimental in nature and two separate approaches to presenting the data are mandated, as follows:

The Constant Dollar basis presents historical cost information adjusted for changes in the general purchasing power of the dollar. The Consumer Price Index for All Urban Consumers (CPI-U), prepared by the U.S. Department of Labor, is used to measure the effects of general inflation. These constant dollar basis disclosures do not purport to represent appraisal values, replacement costs or any other measures of current values.

The Current Cost basis reflects historical cost information adjusted to show the estimated current costs of inventory and property, plant and equipment which have generally increased over time at a rate different from that of the Consumer Price Index. Because of the rapid turnover of inventories, the carrying value of inventories is assumed to approximate current cost; therefore, cost of merchandise sold reflects approximate current cost at time of sale.

The current cost calculations for acquiring the same service potential as the Company's owned assets involve a number of judgments as well as the use of estimating techniques employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead approximations of the price changes that have occurred in the Company's operating environment.

The current cost of stores operating under capital leases and store equipment was estimated using the unit pricing method. The current costs of all other fixed assets were estimated using the indexing method. Current cost depreciation is based on the average current cost of property and equipment during the year. Depreciation expense was computed by applying the ratio of historical cost depreciation expense to the current cost of these assets.

FASB No. 33 requires that income taxes not be adjusted for the effects of general inflation and specific prices and also requires adjustment of inventories but not the related accounts payable amounts in determining cost of merchandise sold in the constant dollar calculations.

Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices

At February 25, 1984 (Dollars in thousands)	Historical Financial Statements	Adjusted for General Inflation (Constant $)	Adjusted For Specific Prices (Current Cost)
Statement of Consolidated Operations			
Sales	$5,222,013	$5,222,013	$5,222,013
Cost and expenses:			
Cost of merchandise sold	4,041,033	4,061,186	4,041,033
Depreciation and amortization	54,205	90,535	94,435
Other costs	1,062,824	1,062,824	1,062,824
Total cost and expenses	5,158,062	5,214,545	5,198,292
Income before income taxes	63,951	7,468	23,721
Net income (loss)	47,551	(8,932)	7,321
Changes in carrying values			
Gain (loss) from decline in the purchasing power of net amounts owed		20,756	20,756
Increase in current cost of inventories and property, plant and equipment			51,406
Less effect of increase in general price level			28,244
Excess of increases in specific prices over increase in the general price level			23,162

Property, Plant and Equipment—Adjusted for Changes in Specific Prices

At February 25, 1984 (Dollars in thousands)	As Reported	As Adjusted
Property, plant and equipment—net	$ 405,537	$ 665,176

The Effects of Changing Prices (continued)

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(Dollars in thousands, except per share figures—in average 1983 constant dollars)

For the Fiscal Year	**1983**	1982	1981	1980	1979
Sales	**$5,222,013**	$4,759,875	$6,780,936	$8,359,477	$9,037,010
Historical cost information adjusted for general inflation:					
Net income (loss)	**(8,932)**	(13,474)	(187,602)	(170,041)	(143,708)
Net income (loss) per common share	**(.24)**	(.36)	(5.02)	(5.34)	(5.77)
Net assets at year end	**593,901**	569,992	583,377	838,610	872,597
Historical cost information adjusted for specific prices:					
Net income (loss)	**7,321**	(32,923)	(203,218)	(120,051)	(62,894)
Net income (loss) per common share	**.20**	(.88)	(5.43)	(3.77)	(2.53)
Excess of increases in specific prices over increases in the general price level	**23,162**	4,298	13,517	57,395	(96,362)
Net assets at year end	**622,786**	597,142	654,091	955,339	1,058,025
Other information:					
Purchasing power gain on net amounts owed	**20,756**	18,129	54,416	85,484	116,634
Market price per common share at year end	**$11.76**	$10.51	$5.04	$6.87	$9.71
Average consumer price index	**300.5**	290.8	275.9	251.3	222.2

Management Overview—The effect of inflation on the Company's financial results is significant as it relates to inventory, the historical cost of property, plant and equipment (including real property and equipment leased under capital leases) and the related depreciation and amortization expense. Because property, plant and equipment are purchased over an extended period of time, ongoing replacement of existing facilities would be at a much greater cost than that reflected on the balance sheet in historical dollars. Also, depreciation and amortization expense, as reflected in the Company's primary financial statements, includes a ratable portion of those historical dollar costs of property, plant and equipment against sales which are stated in current dollars. The difference between the Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices and the primary financial statements is due to the effect of adjusting inventory balances and related cost of merchandise sold and the increase in depreciation and amortization expense to reflect average fiscal 1983 dollars and specific prices.

The management of the Company cautions that the data presented reflect the effects of the overall inflation rate as measured by the CPI-U and specific prices. Such data are not necessarily indicative of the impact of inflation on the Company's operations. No attempt has been made to calculate the benefit derived from potential price increases to offset higher depreciation and amortization costs, nor does such data reflect economies, such as sales and labor productivity and more efficient use of energy, which normally accompany the investment in new productive capacity or the fact that certain square footage may not be replaced. Also, the effect of inflation on accounts payable in the constant dollar calculation is not considered. Additionally, no attempt has been made to determine the effect of inflation on the Company's operating leases.

Summary of Quarterly Results (unaudited)

The following table summanzes the Company's results of operations by quarter for fiscal 1983 and 1982. The first quarter of each fiscal year contains sixteen weeks and each of the remaining three quarters contains twelve weeks. Management's Discussion and Analysis, page 33, discusses these results and significant changes reflected therein.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1983					
Sales	$1,507,843	$1,192,243	$1,205,573	$1,316,354	$5,222,013
Gross margin	343,940	267,325	276,954	292,761	1,180,980
Income before extraordinary credit	9,120	7,247	6,478	8,556	31,401
Net income	13,120	11,247	9,128	14,056	47,551
Income per share before extraordinary credit	.24	.20	.17	.23	.84
Net income per share	.35	.30	.24	.38	1.27
Common stock market price:					
High	12⅞	14⅛	14⅛	13½	
Low	9⅝	11¼	10½	11⅛	
Number of stores at end of period	1,021	985	1,049	1,022	
1982					
Sales	$1,359,538	$1,066,524	$1,070,548	$1,111,207	$4,607,817
Gross margin	307,390	231,440	247,867	245,219	1,031,916
Income before extraordinary credit	5,956	5,615	5,355	4,435	21,361
Net income	8,506	8,035	8,185	6,485	31,211
Income per share before extraordinary credit	.16	.15	.14	.12	.57
Net income per share	.23	.21	.22	.17	.83
Common stock market price:					
High	6⅝	8¾	9¼	11	
Low	4⅜	5⅞	7⅜	7¾	
Number of stores at end of period	1,057	1,070	1,036	1,016	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and by necessity and circumstance include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in the report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and when appropriate separately, with management, the internal auditors and the independent certified public accountants, Deloitte Haskins & Sells, to review each of their respective activities.

James Wood
Chairman of the Board of Directors, President
and Chief Executive Officer

Vito A. Cardace
Senior Vice President and
Chief Financial Officer

Opinion of Independent Certified Public Accountants

The Stockholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and subsidiary companies as of February 25, 1984 and February 26, 1983 and the related statements of consolidated operations, of consolidated stockholders' equity and of changes in consolidated financial position for each of the three fiscal years in the period ended February 25, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated April 19, 1983, our opinion on the fiscal year 1982 and 1981 financial statements was qualified as being subject to the effects on the fiscal year 1982 and 1981 financial statements of such adjustments, if any, as might have been required had the outcome of the revitalization program been known. As discussed under the caption "Closing Facilities" in the Notes to Consolidated Financial Statements, the revitalization program has been substantially completed and the total of the costs incurred together with the estimated remaining costs approximates the amount initially provided. Accordingly, our present opinion on the fiscal year 1982 and 1981 financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, the accompanying financial statements present fairly the financial position of the companies at February 25, 1984 and February 26, 1983 and the results of their operations and changes in their financial position for each of the three fiscal years in the period ended February 25, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Deloitte Haskins & Sells
411 Hackensack Avenue
Hackensack, N.J. 07601

April 10, 1984

Operating Results

Fiscal 1983 (52 weeks) Compared with 1982 (52 weeks)

Sales for fiscal 1983 were $5.2 billion compared with $4.6 billion in fiscal 1982, a 13.3% increase. The increase in sales was attributable to the further development of the Super Fresh Foods subsidiary and the acquisition of Kohl's Food Stores in October, 1983. Average weekly sales per store increased from $96,700 to $106,500 for an increase of 10.1% reflecting the development of the Super Fresh Foods subsidiary and the store remodeling and development program.

During fiscal 1983, as in fiscal 1982, the Company was profitable in each of the four quarters with income from operations increasing from $67.6 million in 1982 to $88.3 million in 1983 for an increase of 30.5%.

Gross margins as a percent of sales increased slightly primarily as a result of improved buying practices.

Operating expenses as a percent of sales have remained constant at 20.9% from 1982 to 1983.

The provisions for income taxes increased as a result of increased profitability. The effect of the increase was offset, in part, by the extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

Fiscal 1982 (52 weeks) Compared with 1981 (52 weeks)

Sales for fiscal 1982 were $4.6 billion compared with $6.2 billion in fiscal 1981, a 26.0% decrease. The significant decrease in sales was attributable to a 34.2% reduction in the number of open stores from 1,543 at the beginning of fiscal 1981 to 1,016 at the end of fiscal 1982. Identical store sales however, showed a favorable trend with a 1.3% increase year to year. Average sales per store increased from $88,000 to $96,700 for an increase of 9.9% reflecting the impact of the closing of smaller stores during the year.

During fiscal 1982 the Company returned to profitability as a result of the revitalization program commencing in the fourth quarter of 1981. Income from operations in fiscal 1982 amounted to $67.6 million compared with $4.5 million the prior year.

Gross margins as a percent of sales increased 1.1% over the prior year, from 21.3% to 22.4% primarily as a result of improved product mix, increased buying allowances, the introduction of a forward buying program and improved inventory loss control.

In addition, a consolidation and/or reduction of the Company's administrative and support facilities contributed to an overall reduction of operating expenses from 21.2% of sales in fiscal 1981 to 20.9% in fiscal 1982.

The provisions for income taxes increased as a result of increased profitability. The effect of the increase was offset, in part, by the extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

The overall performance in fiscal 1982 reflects the major redeployment of assets away from the food processing operations to the retailing sector and the conversion of existing retail facilities to higher volume type operations such as the Company's newly formed Super Fresh and Super Plus subsidiaries.

Fiscal 1981 (52 weeks)
Compared with 1980 (53 weeks)

Sales for fiscal 1981 were $6.2 billion compared with $7.0 billion in fiscal 1980, an 11.4% decrease. The impact of 53 weeks in fiscal 1980 vs 52 weeks in fiscal 1981 contributed approximately 1.9% to the sales decline. The inflation rate for food at home for the comparable period was 6.2%. Comparisons to last year were impacted by the store closing program announced in the latter part of 1981. Sales recorded by stores included in the Company's revitalization program amounted to $390 million in the fourth quarter and are excluded from the statement of operations. At the end of fiscal 1981, there were 1,055 stores in operation as compared with 1,543 at the end of fiscal 1980.

Gross margin decreased $153.8 million, or 10.4% in fiscal 1981. Gross margin as a percentage of sales was 21.3% in fiscal 1981 and 21.1% in fiscal 1980. The increase in the gross margin percentage resulted from an abatement of the competitive price wars seen in certain markets, an increase in direct promotional allowances received from suppliers, and from the elimination of low margin stores relating to the Company's closing program.

Store operating, general and administrative expense was $1.3 billion in fiscal 1981 compared with $1.5 billion in fiscal 1980, an 11.4% decrease resulting primarily from the reduction in the number of stores operated by the Company. Store operating, general and administrative expense, as a percentage of sales, was 21.2% in fiscal 1981 and 21.3% in fiscal 1980.

The loss before income taxes, revitalization program and extraordinary credit was $24.6 million in fiscal 1981, as compared to a loss of $36.0 million in fiscal 1980 which included a $9.4 million charge to cover the estimated costs of an employee severance and early retirement program. The decrease in the loss was mainly due to the closing of unprofitable operations during the fourth quarter of 1981. During the fourth quarter of 1981, a $200 million reserve was established for the closing of unprofitable and marginal stores, certain manufacturing facilities, and related support facilities pursuant to the Company's revitalization program. Also included in 1981 was an extraordinary credit of $130 million, representing the future economic benefit attributable to the acquisition of annuities in conjunction with the planned termination of the Company's existing pension plan and the establishment of a new, more attractive retirement plan.

Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $166.4 million as compared with $185.1 million and $175.8 million at February 26, 1983 and February 27, 1982, respectively. The Company had cash and short term investments aggregating $65.2 million at the end of fiscal 1983 as compared with $98.4 million and $55.6 million at the end of fiscal 1982 and fiscal 1981, respectively. To further improve the Company's liquidity and capital resources, a Credit Agreement was established during fiscal 1983. This Agreement allows the Company to borrow on a revolving basis until September 1, 1986, at which time all outstanding borrowings and/or additional borrowings up to an aggregate of $100 million may be converted to a 4-year term-loan with equal semi-annual installments. There were no borrowings under this Agreement during fiscal 1983.

The Company has reduced the amount of credit lines from commercial banks to approximately $47 million from approximately $60 million as of the end of fiscal 1982 to reflect more closely its potential short-term financial needs. These credit lines have not been utilized for a period of over five years. Although the bank lines were established to finance seasonal inventory requirements, such requirements have been funded out of cash flow for the past five years. During fiscal 1983, the Company financed its $72.6 million capital expenditures through internally generated cash flow supplemented by equipment leasing programs.

The first installment under the Company's $100 million, 9½% Senior Note Agreements was made during fiscal 1983. Future installments of $10 million will be made annually through 1992. In addition, the Company has forecast capital expenditures in fiscal 1984 of approximately $105 million. It is currently estimated that these amounts will be financed through internally generated funds from improved earnings plus depreciation supplemented by further equipment leasing and the sale and leaseback of owned properties.

Based upon no further appeals of the decision of the courts concerning the termination of the Company's pension plan, the Company expects to receive approximately $275 million in excess pension plan assets primarily comprised of readily marketable stocks and bonds. The receipt of these assets is subject to required governmental approvals and is not anticipated to occur until fiscal 1984.

Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share figures)

For the Fiscal Year	**1983**	1982	1981	1980 (b)	1979
Operating results					
Sales	**$5,222,013**	$4,607,817	$6,226,755	$6,989,529	$6,684,179
Income (loss) before extraordinary credit	**31,401**	21,361	(231,633)	(43,049)	(3,807)
Net income (loss)	**47,551**	31,211	(101,633)	(43,049)	(3,807)
Per share results (a)					
Income (loss) before extraordinary credit	**.84**	.57	(6.19)	(1.35)	(.15)
Net income (loss)	**1.27**	.83	(2.72)	(1.35)	(.15)
Financial position					
Current assets	**654,266**	592,801	608,127	782,050	696,057
Current liabilities	**487,885**	407,732	432,365	522,258	465,571
Working capital	**166,381**	185,069	175,762	259,792	230,486
Current ratio	**1.34**	1.45	1.41	1.50	1.50
Total assets	**1,199,928**	1,087,395	1,141,679	1,308,983	1,230,522
Long-term debt—less current maturities	**106,152**	116,557	128,416	130,032	130,681
Capital lease obligations—long-term	**153,031**	143,160	153,975	202,617	202,200
Equity					
Stockholders' equity	**375,789**	329,372	302,153	403,786	390,584
Dividends per share	**—**	—	—	—	—
Book value per share (a)	**10.03**	8.81	8.08	12.68	15.69
Weighted average shares outstanding	**37,455,944**	37,398,884	37,392,784	31,833,356	24,892,137
Number of stockholders	**27,289**	29,312	31,311	33,404	34,704
Other					
Number of employees	**53,000**	40,000	45,000	60,000	63,000
Number of stores at year end	**1,022**	1,016	1,055	1,543	1,542
Total store area (square feet)	**23,276,000**	22,601,000	23,742,000	33,052,000	33,057,000

(a) Based on the weighted average number of common shares outstanding each year.
(b) 53 weeks; all other years contained 52 weeks

Corporate Officers

James Wood
Chairman of the Board, President and Chief *Executive Officer*

James W. Rowe
Vice Chairman of the Board, Chief Administrative Officer and Assistant to the Chief Executive Officer

Eckart C. Siess
Vice Chairman of the Board–International Operations

Alan C. Goulding
Senior Executive Vice President, President and Chief Operating Officer, U.S. A&P Retail Operations

John J. Miles
Senior Executive Vice President, CEO, Family Center, Inc.

Frederick C. Kennedy
Executive Vice President and Chairman, Executive Committee, A&P Canada

Martin H. Kern
Executive Vice President, Merchandising, Purchasing and Distribution

Joseph H. McCarthy
Executive Vice President, U.S. A&P Store Operations

Vito A. Cardace
Senior Vice President and Chief Financial Officer

Peter J. O'Gorman
Senior Vice President, Development

J. Paul Stillwell
Senior Vice President, Metro/New York Group

Ivan K. Szathmary
Senior Vice President, Information and Administration Systems

Robert G. Ulrich
Senior Vice President and General Counsel

Thomas L. Barrette
Vice President, Human Resources

Randall A. Bostwick
Vice President, President, Super Market Service Corp.

James B. Burmeister
Vice President, Carolina Group

Timothy J. Courtney
Vice President, Taxation

Patrick R. Cronin
Vice President, Personnel

Donald D. Dobson
Vice President, Southern Group

William W. Jackson
Vice President, Southeastern Group

Francis X. Leonard
Vice President, Real Estate

H. Nelson Lewis
Vice President, Retail Operations Services

James L. Madden
Vice President, Mid-Atlantic Group

Arthur C. Melervey
Secretary

Robert M. Quinn
Vice President, Financial Planning and Controls

Joseph P. Quirk
Vice President, Labor Relations

Gregory K. Raven
Treasurer and Assistant to the Chief Financial Officer

Michael J. Rourke
Vice President, Marketing and Corporate Affairs

John D. Ryder
Vice President, Marketing, Super Plus

William G. Spearman
Vice President, President, Kohl's Food Stores

Robert W. Toomey
Vice President, Distribution

Burton J. Weinbaum
Vice President, Northeast Group

Richard J. Scola
Assistant Secretary

Directors

James Wood (c)
Chairman of the Board, President and Chief Executive Officer

Rosemarie Baumeister (b)
Vice President, Tengelmann Warenhandelsgesellschaft, West Germany

Harold J. Berry (b) (c) (d)
Vice Chairman of The Board Emeritus Merrill Lynch, Pierce, Fenner & Smith, Inc.

Walter D. Dance (a) (d) (e)
Director Emeritus and Consultant, General Electric Company

Christopher F. Edley (a) (e)
President, United Negro College Fund, Inc.

Helga Haub (c) (d)

Barbara Barnes Hauptfuhrer (a) (e)
Director of various corporations

Paul C. Nagel, Jr. (a) (d)
Director of various corporations

James W. Rowe (c) (d) (e)
Vice Chairman of the Board, Chief Administrative Officer and Assistant to the Chief Executive Officer

Eckart C. Siess (c) (e)
Vice Chairman of the Board–International Operations

Fritz Teelen
Executive Vice President, Merchandising Tengelmann Warenhandelsgesellschaft

Henry W. Van Baalen (b)
Business Consultant

(a) Member of Audit Review Committee
Paul C. Nagel Jr., Chairman
(b) Member of Compensation Policy Committee
Harold J. Berry, Chairman
(c) Member of Executive Committee
James Wood, Chairman
(d) Member of Finance Committee
Paul C. Nagel, Jr., Chairman
(e) Member of Retirement Benefits Committee
Barbara B. Hauptfuhrer, Chairman

Executive Offices

Transfer Agent and Registrar

AP

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